

transmission planning process or in its large generator interconnection process.² Consistent with past practice, for the purposes of these comments the California ISO takes no position on the scope and implementation of the transmission rate incentives addressed in the NOI with the exception of the opportunity to recover 100% of prudently incurred transmission costs when the project is abandoned for reasons beyond the control of the public utility.

With the experience gained from its efforts to interconnect large amounts of renewable resources needed to achieve California's renewable energy portfolio requirements, the California ISO has determined that under certain circumstances, and for public policy reasons, it is in the best interests of ratepayers to provide a level of certainty to both transmission owners and generation developers. Under circumstances where the California ISO tariff may impose upon the transmission owner the obligation to finance the construction of certain transmission assets, prudently incurred costs can be recovered through rates if a transmission project is ultimately abandoned for reasons beyond the control of the transmission owner.

As described in detail below, there are instances that arise under the California ISO's generation interconnection process and its transmission planning process where a transmission owner is required, involuntarily, to upfront fund large network upgrades needed to access renewable generation. Should the generation resources driving the underlying need for the network upgrades ultimately not be developed to the extent assumed in the California ISO's studies, the transmission owner could be left with stranded costs³. Although Order 679 provides the opportunity for transmission owners to seek recovery from the Commission of such prudently incurred costs through a two step approval

² *Southern California Edison Company*; EL10-1-001; EL10-1-002 (2010); *Green Energy Express LLC*, EL09-74-000 (2009)

³ In general, the California ISO tariff and historical practice contemplate that, the California ISO and transmission owner would evaluate the feasibility and practicability of de-scoping the transmission project should subscription to underlying generation diminish; nevertheless, it may be possible that, even with opportunities for "course correction," there may be work or expenses incurred or irrevocably committed which, while in hindsight were ultimately abandoned, were prudently incurred at the time they were undertaken.

process, the California ISO has found that the uncertainty of such recovery and delays caused by the approval process create financial risks for both transmission owners and generation developers. This financial risk could lead to both higher costs to ratepayers and become a disincentive to renewable generation development.⁴ Accordingly, the California ISO intends to seek Commission approval for tariff language providing assurance that, should anticipated generation requiring involuntary transmission owner funding for network upgrades not materialize as forecast, Commission approved costs can be recovered through the California ISO's transmission access charge.

Briefly stated, the instances in which transmission owners could be required to involuntarily fund and construct generation interconnection network upgrades result from the California ISO's generation interconnection "cluster" study construct and also from the California ISO's recently revised transmission planning process. The cluster study process assumes that resources in cluster study areas will develop, and once network upgrades are identified in generator interconnection agreements, they become study assumptions for the generation projects in the next cluster. The transmission planning process provides an opportunity for the California ISO to review large network upgrades identified in the interconnection study process but not yet included in an interconnection agreement. This review could lead to a determination that a network upgrade should be expanded for economic or public policy reasons and that the transmission owner responsible for financing and constructing the upgrades should also bear the responsibility for the expanded project.

The purpose of the California ISO's comments herein is to provide information about a very narrow aspect of transmission cost recovery and the

⁴ Indeed, concerns about the effect on generation financing brought about by delay in the abandoned plant recovery approval process were recently raised by a consortium of stakeholders in a letter filed with the Commission on May 28, 2010 (see <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=12357377>; Docket Nos. EL10-1, ER10-732, ER10-796). This letter noted the challenges renewable developers face when negotiating generator interconnection agreements that incorporate conditions based on Commission approval of abandoned plant cost recovery.

California ISO's proposal to address financial uncertainty in those situations, through changes to its tariff, as it pertains to achieving state policy requirements.

II. COMMENTS

Recovery of Prudently Incurred Costs where a Transmission Project is Downsized for Reasons Outside the Control of the Transmission Owner.

At paragraph 36 of the NOI, the Commission notes that transmission providers have been granted 100 percent recovery of prudently incurred transmission facilities costs if the projects were later canceled or abandoned.⁵ Because this precedent marks a departure from previous determinations that abandoned plant costs should be split 50-50 between ratepayers and shareholders, the Commission seeks comments on how ratepayer risk could be mitigated. For example, question 49 asks whether there are reasonable conditions or safeguards that can be imposed to ensure that risks are properly allocated, and question 51 requests comments on additional measures that could be taken to limit the risk of abandonment or mitigate the impacts of cost recovery.

As described briefly above, the California ISO suggests that developing specific criteria for the circumstances under which the costs of facilities that are later abandoned would be eligible for recovery from ratepayers would provide certainty to project developers and also limit the instances of ratepayer risk. Specifically, during a recent stakeholder initiative in which the ISO and its stakeholders considered enhancements to the current generation interconnection process (known as the "GIP2" initiative), stakeholders noted that certain provisions of the California ISO's generation interconnection process and the transmission planning process can work to impose additional and involuntary financial obligations on transmission owners:

⁵ *Southern California Edison Company*, 75 FERC ¶61,266 at 61,859 (1996).

1. A transmission owner may be involuntarily required to upfront finance and construct a network upgrade where an interconnection customer withdraws its project but the network upgrade cannot be downsized because it will be required for customers in later queue clusters (Section 12.2.2 of Appendix Y)
2. A transmission owner may be involuntarily required to upfront finance and construct network upgrades where the costs of the project exceed the interconnection customer's maximum cost responsibility and the upgrades are found to be needed in future cluster studies. (Section 12.3.1 of Appendix Y)
3. A transmission owner may be involuntarily required to upfront finance and construct network upgrades if such upgrades are re-evaluated in the transmission planning process and, due to project modifications identified through that process, the cost exceeds the generator(s) cost cap provisions and the transmission owner is required to upfront finance the difference between the generator(s) cost cap and the actual cost. (Section 24.4.6.5)

Under each of these circumstances, the transmission owner could be at financial risk for the unanticipated costs of larger network upgrades for which the generator developers have no funding requirements. Once having shouldered this risk, however, it is possible that at a later point some of the proposed generation resources for which the larger network upgrade was designed could withdraw from the queue (or the developers simply terminate the project), requiring that the network upgrade be de-scoped (downsized). Stakeholders were concerned that the sunk costs of the larger transmission project-which would be "abandoned plant costs" when the need for the larger project disappeared- could be at risk for rate recovery where the network upgrade that was ultimately constructed turned out to be much smaller than the project identified in the generation interconnection process and the transmission planning process. Accordingly, the ISO's GIP 2 proposal, which was approved

by the California ISO Board of Governors on August 25, 2011 included a recommendation that the ISO develop tariff language containing provisions for a presumption that under the three specific situations referenced above, prudently incurred costs associated with such projects may be recovered through the California ISO's transmission access charge, if costs associated with the larger transmission project ultimately become stranded, for reasons outside of control of the transmission owner. These reasons could include for example, a situation where the full extent of project generation development in a particular area ultimately did not occur, or where governmental land use permitting required some alteration of the transmission method of service.

Several other questions posed by the NOI touch on the ISO's proposal to provide presumptive reasonableness for certain potential stranded costs. For example, in question 51, the Commission asked if "additional measures" could be taken to mitigate risk to ratepayers. While the California ISO's approach to cost recovery certainty for a small portion of transmission costs that could become stranded is based on the unique circumstances created by its interconnection and transmission planning study processes, the California ISO suggests that defining the instances where, presumptively, prudently incurred costs could be recovered is an approach that could be used to set limitations on ratepayer responsibility for 100 percent of *all* abandoned plant costs. In short, the "recognition in advance" of conditions warranting the recovery of prudently incurred costs associated with the abandonment of all, or a portion of transmission facilities is potentially a means to reduce ratepayer risk while providing some level of cost recovery certainty.

Question 53 is directed towards the issue of partial project abandonment, and the ISO notes that the three circumstances described above actually address the issue of partial abandonment. This is because it is the "delta" of costs for larger network upgrades rather than those initially identified in interconnection studies for which the transmission owner is placed "at risk" if the final project is de-scoped. If the resources requiring the additional investment

are never completed, the prudently incurred “delta” costs would be eligible for recovery.

Finally, in question 54, the Commission asks if the recovery of abandoned plant costs should be made contingent on the abandonment or cancellation of all or a substantial portion of a transmission project; in other words, how should the Commission define a “project” for the purpose of determining whether the associated prudently incurred costs can be recovered? The California ISO suggests that, for network upgrades associated with the interconnection of resources needed to achieve public policy goals, the transmission “project” for which abandoned plant cost recovery is being sought should be evaluated on a case-by-case basis. While defining the criteria for cost recovery may serve to mitigate risk and provide certainty, specific elements of network upgrades needed for generation interconnection could vary substantially from case to case and providing specific categories eligible for recovery could be problematic.

For example, using the California ISO’s criteria for presumptively reasonable recovery of stranded investment, the element of one larger network upgrade ultimately not needed could, in one situation, be a transformer upgrade to a higher voltage level, whereas in another circumstance it could be a stand-alone transmission line on another part of the system.

III. CONCLUSION

The California ISO appreciates this opportunity to share some information from its generation interconnection and transmission planning processes. Based on recent experience and stakeholder input, the ISO will propose for tariff inclusion a ‘recognition in advance’ of certain limited circumstances leading to abandoned plant cost recovery where transmission owners are involuntarily required to incur costs that become stranded for reasons outside their control. It is possible that this approach could be used to address some of the issues raised in this NOI with respect to abandoned plant cost recovery.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2011).

Dated at Folsom, California this 12th day of September, 2011.

Is/ Anna Pascuzzo
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